NINE NATIONAL ORGANIZATIONS SUPPORTING SMALL BUSINESS AND INNOVATION JOIN TOGETHER ON CONCERNS ABOUT SENATE FINANCIAL REFORM BILL

April 13, 2010

As national organizations that support the start-up and growth of innovative small businesses, we want to express the importance of ensuring that the Restoring American Financial Stability Act of 2010 does not damage angel investing and particularly the entrepreneurial businesses they support. We join the Angel Capital Association in asking that two small sections in the bill be removed or modified:

- **Section 412 and 413**, ***Adjusting the Accredited Investor Standard for Inflation***. As currently written, this section could result in the elimination of as many as two-thirds of all accredited investors who invest directly in start-up and early-stage small businesses.

- **Section 926**, ***Authority of State Regulators Over Regulation D Offerings***. This section could make it more difficult to raise angel capital from investors in different states, make it unclear what entities regulate angel investments, and introduce potential lengthy waiting periods for businesses to receive their capital, possibly resulting in the death of those businesses.

We appreciate the importance of regulation to protect investors from fraud, but we urge the Senate to consider several factors in improving these sections of the legislation:

- Entrepreneurial companies are important to job creation and innovation in the United States. We note particularly the study by the US Census Bureau that companies five years old or less created all of the net new jobs over a 25 year period.

- Angel investors are an important source of capital for many of these innovative start-ups. For instance, one of the signatories to this letter, the Association of University Technology Managers (AUTM), has tracked the source of initial funding for university spin-out companies for the past five years. They have consistently found that accredited individual investors are the source of initial funding for a third of all university start-up companies. All of the signing organizations are therefore deeply concerned about any changes that would diminish the size of the pool of accredited investors.

- Establishing standards that would significantly cut back on the pool of angel capital is especially difficult during the recession, when small businesses are having trouble finding capital, especially in the $100,000 to $2 million range that is sometimes referred to as the “Valley of Death.”

- Startup and seed investments are precisely the types of financing that need uniformity and simplicity the most. It is important to ensure that entrepreneurs raising capital have the same regulations regardless of their state and that they are not subjected to excessive legal costs, delays, complexity, and uncertainty that would follow from Section 926 as currently written.

- Consider "beefing up" accredited investor protections for private offerings by clarifying who is disqualified from involvement in these financings and developing more accessible information on individuals and entities with prior records of fraud and deceit in any type of investment activity, so that federal and state securities regulators can more easily review Regulation D filings to ensure that new investment offerings do not include those people and entities.

Thanks for your consideration of these issues and your support of innovative small businesses. We want to ensure that the entrepreneurial startups that create important innovations and high quality jobs not only continue to have this important type of capital so they can grow, but that they are not subjected to regulations that make new and existing companies die for lack of capital or waiting to clear 120 day hurdles and large legal costs to get regulatory approval for the legitimate capital they raised.

Sincerely,

Dan Berglund
State Science & Technology Institute

Marianne Hudson
Angel Capital Association

Jim Jaffe
National Association of Seed and Venture Funds

David Monkman
National Business Incubation Association

Matthew Nemerson
Technology Councils of North America

Rohit Shukla
Larta Institute

Ashley Stevens, D. Phil (Oxon), CLP
Association of University Technology Managers

Kerwin Tesdell
Community Development Venture Capital Alliance

Eileen Walker
Association of University Research Parks